

UKIP PARLIAMENTARY RESOURCE UNIT

Sin Taxes: The Treasury's War on the Poor



Sin taxes: the Treasury's war on the poor

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1. Executive summary

The Government's aborted plans to reduce disability benefits in the 2016 Budget led many to question its stated commitment to 'One Nation' ideals. But left largely unchallenged was another measure that will disproportionately affect the country's poorest households: the new tax on sugary drinks.

The Soft Drinks Industry Levy is merely the latest in a series of 'sin taxes': levies on presumed vices ostensibly aimed at changing the behaviour of their consumers. Fizzy drinks join alcohol, cigarettes, and gambling, among others, on a long list of items morally censured by the Treasury.

Sin taxes are invariably introduced under the guise of improving the welfare of the people they target, but there is little evidence that they achieve their stated goals. The tax on sugary drinks was sold as a measure to combat childhood obesity even though soft drinks make up a minimal proportion of the calorie intake of overweight children.

Rather than increase wellbeing, sin taxes make life harder for average earners, and hurt the poorest most of all. Sin taxes are regressive. Research by the IEA in 2013 estimated the cost of sin taxes to households in the lowest income bracket at £1,286 per year. Since then, not only have existing sin duties increased but new measures, like the plastic bag charge, have been introduced. The soft drink tax is likely further to intensify the burden on the poor.

The real beneficiaries of sin taxes are not the people who pay them, but those who collect them. Sin taxes represent a huge annual windfall for the Treasury, enabling it to recoup welfare expenditure by stealth.

Instead of improving lives, sin taxes merely punish people for lifestyle choices that offend the sensibilities of the ruling classes. Beneath the moral masquerade, they reflect nothing more than the social prejudice of political elites.

The idea that the State should use the tax code to orchestrate the lifestyles of free citizens is arguably incompatible with liberal democracy. Using the tax code to impose the prejudices of elites on the poorest households is a form of class warfare. Far from creating one nation, the Chancellor's sin taxes are dividing the British people.

2. The sin tax bill

Sin taxes are regressive in that they place a much greater burden on those with the lowest incomes than those with the highest. With every budget, this burden increases. Not only are new sin taxes introduced, but existing levies are usually increased. They compound the effect of VAT, another regressive indirect tax that has risen substantially in recent decades – often literally, since VAT is payable on the duty.¹ Sin taxes are therefore a direct contributor to both poverty and wealth inequality today.

¹ See 'UK taxes compared: How VAT rates have changed,' *Which*: <<http://www.which.co.uk/money/tax/guides/uk-taxes-compared/how-vat-rates-have-changed/>>

The poor pay a much greater proportion of their income in indirect taxation, including both VAT and sin taxes, than the rich. In the 2013-2014 financial year, the most recent figures analysed by the Office for National Statistics, the poorest fifth of British households spent 31% of their disposable income on indirect taxes, compared with 15% for the richest fifth.² This reflects a long-term trend that has seen the burden of indirect taxation increase on the poor and decrease on the wealthy. Since the late 1970s, British households in the lowest income quintile have seen the share of their disposable income spent on indirect taxes rise by 41% (from 22% in 1977 to 31% today), whereas that of the richest fifth has fallen by 25% (from 20% in 1977 to 15% today).³

Sin taxes account for a significant proportion of the expenditure of the poorest households. In a study for the IEA published in 2013, Christopher Snowden estimated that households in the lowest income quintile spend an average of £1,286, or 11.4% of their disposable income, every year on sin taxes, comprising duties on alcohol, tobacco, gambling, motor fuel, energy, and air travel (including the latter three since consuming fossil fuel is also considered a vice).⁴ Those in the lowest income bracket who actually consume alcohol, tobacco, and use a car spend an average of 37% of their disposable income on sin taxes and VAT, compared to just 15% for equivalent consumers in the highest income bracket.⁵

Even when the poorest households consume much less than the wealthiest, sin taxes remain regressive. Alcohol consumption increases with income, with almost 80% of those in the highest income bracket reporting recent drinking, compared to just over 40% of those in the lowest income bracket. Yet the IEA's research demonstrates that alcohol duty still absorbs 2% of the disposable income of those in the lowest income quintile, as opposed to 0.6% for those in the highest.⁶

The cost of sin taxes to those in the lowest income group has likely grown since the IEA's study, as several sin taxes have increased. Although duty escalators on fuel, beer, cider, spirits, and wine have been scrapped or suspended, the tobacco duty escalator has been maintained, raising tobacco duty by 2% above inflation annually.⁷ The 2016 Budget also increased the duty on hand-rolling tobacco by a further 3% above the tobacco duty escalator, and raised duty on free plays within Remote Gaming Duty from August 2017.⁸ Air passenger duty, vehicle excise duty, and duty on wine and high-strength cider have continued to increase in line with inflation.⁹

New regressive sin taxes and charges are likely to increase the burden of indirect taxation on those on the lowest incomes still further in the years ahead. The Treasury expects the Soft Drinks Industry Levy, announced in the 2016 Budget for introduction in 2018, to raise £520 million from consumers in its inaugural year.¹⁰ The mandatory 5p plastic bag charge, introduced in October 2015, will cost consumers a further £1,495 million in cash terms, or £67 per household, over ten years, according to analysis of DEFRA's cost projections by the Taxpayers' Alliance.¹¹

² 'The Effects of Taxes and Benefits on Household Income: Financial Year Ending 2014,' Office for National Statistics, 29/06/15, Table 1.

³ Snowden, C. 'Aggressively Regressive: the sin taxes that make the poor poorer,' IEA, 10/2013, p.13.

⁴ Ibid. p.6.

⁵ Ibid. p.7.

⁶ Ibid. p.20.

⁷ *Budget 2016*, HM Treasury, 16/03/16: < <https://www.gov.uk/government/publications/budget-2016-documents/budget-2016> >

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Fairhead, H., 'The Single Use Plastic Bag Charge,' Taxpayers Alliance, 09/2015, p.6.

3. The myth of progressive sin tax

Supporters of sin taxes seek to justify them on the basis that they positively affect welfare. Sin taxes are sometimes even defended as progressive, on the assumption that they have the greatest effect on the behaviour of low income groups.¹² Yet the evidence shows that this assumption is frequently false. Sin taxes do not always produce the intended behavioural change. When they do, they are still regressive, even when the purported welfare benefits are taken into account.

Tobacco duty – the most regressive sin tax in the UK – has raised the cost of living for the poorest households without commensurately improving their welfare. Tobacco duty has risen sharply since the introduction of the tobacco duty escalator in 1993, and today typically accounts for 74% of the price of a pack of 20 cigarettes, and 88% of the price of the cheapest brand.¹³ The recommended retail price of a pack of 20 cigarettes has more than quintupled in cash terms in the last 25 years – from £1.65 in 1990 to £9.40 today.¹⁴ However, smoking prevalence among those at the lower end of the income scale has not fallen proportionately: in 1990, 36% of men in manual occupations smoked, compared to 29% today.¹⁵ ¹⁶ Evidence from abroad corroborates the same trend: an official report on the impact of tax on smoking prevalence in New York State found no statistically significant decline in smoking among the lowest earners between 2004 and 2010 despite cigarette excise taxes trebling over the same period.¹⁷

In fact, rises in tobacco duty have correlated much more closely with the behaviour of the wealthiest smokers. Although there used to be little difference in smoking habits between high and low earners, today smoking prevalence is strongly and inversely correlated with income.¹⁸ In 1974, 56% of men and 45% of women in manual occupations smoked, compared to 45% of men and 38% of women in non-manual occupations.¹⁹ Yet by 2011, 29% of men and 28% of women in manual occupations smoked, compared to 14% of men and 12% of women in professional and managerial occupations.²⁰ This suggests that price has little impact on consumption, since demand is highly inelastic.

Consequently, the cost of tobacco duty invariably falls on the lowest income group. In 2012, the poorest 20% of the UK's population spent the most of any income group, in absolute terms, on tobacco duty, whereas, in the late 1970s, the poorest 20% spent the least, while the richest 20% spent the most.²¹ Smokers in the lowest income quintile now spend 16.8% of their income on cigarette taxes, compared to 3.4% for those in the highest quintile.²² The poorest have therefore borne the greatest costs from tobacco duty while experiencing the least intended health benefits.

¹² E.g. Campbell, D., 'Sugar tax: financially regressive but progressive for health?', *The Guardian*, 18/03/16:

< <http://www.theguardian.com/society/2016/mar/18/sugar-tax-financially-regressive-but-progressive-for-health>>

¹³ Tobacco Manufacturers' Association: < <http://www.the-tma.org.uk/policy-legislation/taxation/>>

¹⁴ Tobacco Manufacturers' Association: < <http://www.the-tma.org.uk/tma-publications-research/facts-figures/uk-cigarette-prices/>>

¹⁵ Evandrou, M. & Falkingham, J., 'Smoking behaviour and socio-economic status: a cohort analysis, 1974 to 1998,' *Health Statistics Quarterly*, No.14, Office for National Statistics, 2002; Table 3, p.35.

¹⁶ 'General Lifestyle Survey 2011,' Office for National Statistics, 07/07/13; Chapter 1 – Smoking, Table 1.5.

¹⁷ '2011 Independent Evaluation Report of the New York Tobacco Control Program,' RTI International, 2011; p.28, p.43.

¹⁸ Snowdon, *Aggressively Regressive* p.17.

¹⁹ Evandrou & Falkingham, Table 3, p.35.

²⁰ 'General Lifestyle Survey 2011,' Table 1.5.

²¹ Snowdon, *Aggressively Regressive* p.17.

²² Ibid. p.24.

The new soft drink levy likewise promises to raise consumer costs without positively affecting consumer welfare. Despite being ostensibly intended to combat obesity among children, there is little evidence that the levy will have any significant effect on calorie intake. A 2007 academic study of the UK National Dietary and Nutritional Survey of Young People found that soft drinks accounted for only 5% of the total energy intake of the heaviest children. It concluded: "These data are not consistent with any role for non-milk extrinsic sugars or caloric soft drinks in obesity among British children or adolescents, but point instead to a general role of overeating and physical inactivity."²³

By targeting only one source of sugar, the levy risks encouraging the substitution of other, untaxed high-sugar products for soft drinks, such as chocolate, confectionary, ice cream, and milkshakes. Evidence from soft drink levies elsewhere suggests the likelihood of substitution is high. The Taxpayers' Alliance notes that the average individual energy intake in Mexico has fallen by only 5 calories a day since the introduction of a tax on sugary drinks, while a municipal 10% tax on sugary drinks and foods in the United States, introduced as a six-month experiment, led to increased consumption of beer.²⁴

The levy could also encourage consumption of more pernicious forms of sugar. By dint of its exemption from the levy, fruit juice is also likely to be a substitute for soft drinks. On average, sugar constitutes 7% of a fruit juice product marketed at children, according to the NHS.²⁵ Yet recent research has shown fructose, the main sugar in pure fruit juice, to be significantly more harmful to long-term health than glucose. Since fructose can only be metabolised by the liver, whereas glucose can be metabolised by any cell in the body, excessive fructose consumption can cause the accumulation of fat in the liver.²⁶ Non-alcoholic fatty liver disease, which correlates with the high prevalence of dietary fructose and currently affects 30% of Americans, not only damages the liver, but increases the risk of cardiovascular disease, and is linked to diabetes.²⁷

The soft drinks levy might even be entirely counterproductive, by raising, rather than lowering, the sugar content in soft drinks. Analysis by the Institute for Fiscal Studies highlights that the expected composition of the levy (18p/l for drinks with 5-8g of added sugar/100ml; 24p/l for drinks with >8g added sugar/100ml) could incentivise manufacturers to increase, rather than decrease, sugar content, since the tax per gram of sugar would progressively decrease as sugar content rises above each threshold.²⁸

Like other sin taxes, therefore, the soft drinks levy is likely to be regressive without effecting any health benefits for those paying it.

²³ Gibson, S. & Neate, D. 'Sugar intake, soft drink consumption and body weight among British children,' *International Journal of Food Sciences and Nutrition*, 09/2007; 58 (6)

²⁴ 'Sugar tax briefing,' TaxPayers' Alliance, 13/01/16, p.2.

²⁵ 'Sugar levels in children's fruit juices "unacceptably high",' NHS Choices, 29/03/16.

²⁶ 'Abundance of fructose not good for the liver, heart,' *Harvard Heart Letter*, Harvard Medical School, 01/09/11.

²⁷ Ibid.

²⁸ Smith, K. 'The Soft Drinks Levy,' Institute for Fiscal Studies, 03/2016

4. The real winner

If sin taxes fail to change behaviour, they successfully perform a much more valuable service for governments: raising revenue. *Pace* pro-sin-tax pressure groups, the income from duties on tobacco, alcohol *et al.* vastly exceeds the cost of vice to the taxpayer. As those who earn the least receive much of their income from the State, sin taxes are a means to recoup welfare expenditure by stealth without cutting benefits. Far from promoting the welfare of low-income households, sin taxes are the acceptable face of regressive taxation.

Proponents of sin taxes often justify them on the basis that vice costs the public purse; yet the evidence shows the reverse. Tobacco duty brings in almost £10 billion a year, but the annual cost of smoking-related illnesses is estimated at £2.7 billion – barely a quarter of the revenue.^{29 30} Alcohol duty raises over £10 billion a year, yet costs the NHS £3.5 billion annually.^{31 32} Together, tobacco, alcohol, hydrocarbon, and air passenger duties, plus environmental taxes, raise over £50 billion a year, representing one tenth of total tax receipts, over a sixth of income tax and NI, almost half of VAT, and more than corporation tax, the bank levy, and the petroleum revenue tax combined.³³

‘Cost-of-vice’ studies on smoking, drinking, and obesity often estimate a much higher bill to society based on wider ‘negative externalities,’ but, as Christopher Snowden’s 2012 report for the Adam Smith Institute argues, these calculations are tendentious.³⁴ The total public liability is deemed to include not only healthcare, but also lost productivity, crime and fires, ‘intangible costs’ (such as emotional harm), welfare payments, prevention, and even private expenditure on the product. But several of these categories are based on questionable assumptions, or false counterfactuals. Lost productivity estimates assume that employers retain persistently unproductive workers; intangible costs are typically subjective; while classing private expenditure as a cost assumes that there is no economic benefit to the consumer from the product.

An entirely dispassionate cost-benefit analysis would, in fact, show that abstinence from vice is more expensive for the taxpayer. End-of-life costs, in both healthcare and social security, for people who have lived healthy lives exceed those of smokers, drinkers, and the obese. As Snowden details, “successive studies carried out over four decades have shown that although smokers require more healthcare expenditure during their working lives, nonsmokers require greater expenditure in pensions, nursing care, and welfare payments.”³⁵ Moreover, unlike smokers and drinkers, abstainers from vice do not offset their costs in taxes. Snowden concludes, “the evidence shows that, if making consumers ‘pay their way’ was truly the aim of public policy, the government would be more justified in placing a saint tax on fruit and vegetables.”³⁶

²⁹ ‘HMRC Tax & NIC Receipts,’ HMRC, 22/03/16, p.15:

<https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508913/Feb16_Receipts_NS_Bulletin_Final.pdf>

³⁰ ‘Tobacco Smoking Statistics,’ BMA: < <http://www.bma.org.uk/working-for-change/improving-and-protecting-health/tobacco/smoking-statistics>>

³¹ ‘HMRC Tax & NIC Receipts,’ p.16.

³² ‘Alcohol treatment in England 2013-14,’ Public Health England, 10/2014, p.3.

³³ ‘HMRC Tax & NIC Receipts,’ p.10 ff.

³⁴ Snowden, C. ‘The Wages of Sin Taxes,’ Adam Smith Institute, 2012, p.11 ff.

³⁵ *Ibid.* p.29.

³⁶ *Ibid.* p.55.

In truth, sin taxes are a stealth levy on the poor. Since the poorest quintile of the population receive the largest proportion of their income from benefits, sin taxes allow the Treasury to recoup much of its expenditure by stealth.³⁷ Moreover, whereas cutting benefits is politically fraught, sin taxes on the poor are introduced under the guise of paternalism, supported by the moral approval of health campaigners. Beneath the veneer of virtue, the only true beneficiary is the Treasury.

5. 'Let them eat quinoa'

Even if sin taxes achieved their stated aims, the assumptions underlying the moral argument for them are deeply problematic. The premise that a more abstemious, and possibly longer, life is objectively superior in value to a more indulgent, yet shorter one is disputable, and arguably unprovable. Moreover, the right of citizens to determine their own moral priorities is one of the fundamental tenets of a free society. The imposition of moral priorities by Government fiat is a restriction on individual freedom that lacks any cogent justification.

Sin taxes ultimately reflect neither sound moral arguments nor patrician concern but elitist prejudice. Instead of improving the lives of the least well-off, sin taxes punish them for their lifestyle choices. The puritanical condemnation of smoking, drinking, and eating by social elites who maintain their own physical fitness with the assistance of expensive personal trainers and nutritionists belies an ill-disguised contempt for ordinary lives among the ruling classes. Far from furthering the One Nation ideal, sin taxes exacerbate the divide between the political Establishment and the people.

6. Conclusion

When the poll tax was introduced in 1990, critics attacked it because it was regressive. But in the twenty-five years since, successive governments and ministers – whether Labour, Conservative, or Liberal Democrat – have steadily expanded a set of regressive sin taxes that now cost the poorest households over 10% of their income every year, without any protest from the campaigners who once fought the community charge. Sin taxes give the lie to the current Government's rhetoric of 'One Nation,' 'compassionate' conservatism. In truth, the Chancellor is intensifying the fiscal war on the poor.

³⁷ Snowden, 'Aggressively Regressive' p.8.